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Citrus

Annual

2004

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Report Highlights:

Australian orange production is forecast to rise in 2005/06, reaching levels more reflective of longer-term average production. Exports in 2005/06 are forecast to increase, as are deliveries of oranges to processors, both reflecting the larger expected domestic crop. Orange juice imports in 2005/06 are forecast to decline, while exports of juice are expected to rise during the same period.

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
Annual Report
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[AS]

Table of Contents

SECTION ONE: SITUATION AND OUTLOOK.....	3
Executive Summary	3
SECTION TWO: STATISTICAL TABLES	4
SECTION THREE: NARRATIVE ON SUPPLY, DEMAND, POLICY AND MARKETING.....	7
Fresh Oranges	7
Production.....	7
Trade.....	8
Currency Trends	8
Consumption	9
Orange Juice	9
Production.....	9
Trade.....	9
Consumption	9
Policy.....	10
Free Trade Agreements.....	10
Quarantine Policy.....	10
Quarantine Developments	11
Industry Organization.....	11

SECTION ONE: SITUATION AND OUTLOOK

Executive Summary

Australian orange production is forecast to increase by about eight percent in 2005/06, reaching a level more reflective of the long-term average. A combination of factors, including an expected return to more normal weather conditions following a prolonged drought, is driving this year-on-year expected production increase.

Estimated orange production in 2004/05 has been revised downward, roughly in-line with recent industry estimates. A resumption of drought-like conditions, following an excellent start to the season, resulted in a lower than previously expected orange production. Orange production in 2003/04 has been lowered slightly, and now is estimated at one of the lowest levels in recent history. This depressed production level was due to the severe 2002-03 drought, which severely limited irrigation water supplies.

Orange exports in 2005/06 are forecast to rise by just over 10 percent, driven by the larger expected orange crop. Projected orange exports in 2004/05 have been revised downwards, due to lower than previously expected domestic production. The value of the Australian dollar, which has recently increased sharply vis-à-vis the U.S. dollar, is expected to have a dampening affect on local currency returns derived from exports, and hence should lessen grower returns.

Deliveries of oranges to processors are forecast to increase by around five percent in 2005/06, driven by the larger expected 2005/06 crop. This production level will likely see juice imports declining and exports rising in 2005/06.

Detection of citrus canker in July 2004 resulted in the quarantine of a relatively remote citrus producing area in the state of Queensland. Citrus trade exports from the state of Queensland, as well as interstate trade, was halted during the eradication phase. Australia has declared itself free of citrus canker, although four detections of the disease have been made over the past 100 years.

Australian citrus producers pay levies on citrus trade in order to fund marketing and research and development programs. A recent proposal to increase levy contributions was rejected by a vote of citrus producers.

Australia recently concluded Free Trade Agreement (FTA) negotiations with the United States and Thailand, which will allow preferential access for Australian citrus in these two markets. Prior to this, Australia had entered into only two FTA's -- with New Zealand and Singapore. Presently, Australia is seeking to negotiate a number of additional FTA's, including with China, the Association of South East Asian Nations, among others.

The United States is currently seeking access to Australia for citrus fruit from the State of Florida. Australia's quarantine policy-making body is presently conducting an Import Risk Analysis that would be the precursor to access for Florida fruit.

SECTION TWO: STATISTICAL TABLES

PSD Table Oranges, Fresh							
	2002	Revised	2003	Estimate	2004	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		04/2003		04/2004		04/2005	MM/YYYY
Area Planted	0	32000	0	32000	0	32000	(HECTARES)
Area Harvested	0	27000	0	27000	0	27000	(HECTARES)
Bearing Trees	6800	6017	6850	6026	0	6045	(1000 TREES)
Non-Bearing Trees	1190	1112	1140	1124	0	1130	(1000 TREES)
TOTAL No. Of Trees	7990	7129	7990	7150	0	7175	(1000 TREES)
Production	410	407	550	461	0	500	(1000 MT)
Imports	9	18	9	13	0	10	(1000 MT)
TOTAL SUPPLY	419	425	559	474	0	510	(1000 MT)
Exports	110	94	150	98	0	110	(1000 MT)
Fresh Dom. Consumption	134	161	174	176	0	190	(1000 MT)
Processing	175	170	235	200	0	210	(1000 MT)
TOTAL DISTRIBUTION	419	425	559	474	0	510	(1000 MT)

Import Trade Matrix Oranges, Fresh			
Time Period	Yr End Mar	Units:	MT
Imports for:	2003		2004
U.S.	10915	U.S.	15073
Others		Others	
Spain	1003	Israel	1442
Egypt	414	Spain	745
Israel	403	Egypt	205
New Zealand	238	New Zealand	141
Turkey	20	Japan	16
Italy	11	Thailand	1
Vietnam	3	Vietnam	1
Iran	2		
Sudan	1		
Total for Others	2095		2551
Others not Listed	53		24
Grand Total	13063		17648

Export Trade Matrix Oranges, Fresh			
Time Period	Yr End Mar	Units:	MT
Exports for:	2003		2004
U.S.	21768	U.S.	19206
Others		Others	
Malaysia	31630	Hong Kong	24498
Hong Kong	30205	Malaysia	15133
Singapore	14034	Singapore	8997
Japan	8097	Japan	8521
Taiwan	6222	New Zealand	5571
New Zealand	4678	Canada	2299
Indonesia	4260	Indonesia	2080
Canada	3105	Sri Lanka	1283
Sri Lanka	2009	Bangladesh	891
South Korea	1983	Italy	748
Total for Others	106223		70021
Others not Listed	7958		4723
Grand Total	135949		93950

PSD Table Orange Juice							
	2002	Revised	2003	Estimate	2004	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		07/2003		07/2004		07/2005	MM/YYYY
Deliv. To Processors	175000	170000	235000	200000	0	210000	(MT)
Beginning Stocks	11260	11260	4705	1585	3580	1331	(MT)
Production	13461	13077	18075	15384	0	16153	(MT)
Imports	27984	25153	29000	31362	0	31000	(MT)
TOTAL SUPPLY	52705	49490	51780	48331	3580	48484	(MT)
Exports	2000	1905	2200	2000	0	2100	(MT)
Domestic Consumption	46000	46000	46000	45000	0	45000	(MT)
Ending Stocks	4705	1585	3580	1331	0	1384	(MT)
TOTAL DISTRIBUTION	52705	49490	51780	48331	0	48484	(MT)

Import Trade Matrix Orange Juice			
Time Period	Yr End Mar	Units:	MT Conc
Imports for:	2003		2004
U.S.	1617	U.S.	2414
Others		Others	
Brazil	22140	Brazil	18732
Netherlands	747	Netherlands	1613
Cuba	684	Belgium	1234
South Africa	578	Italy	343
Argentina	311	South Africa	282
Pakistan	182	Cuba	191
Mexico	143	Argentina	140
Italy	140	Israel	136
Germany	84	Singapore	41
France	80	France	13
Total for Others	25089		22725
Others not Listed	117		22
Grand Total	26823		25161

Export Trade Matrix Orange Juice			
Time Period	Yr End Mar	Units:	MT Conc
Exports for:	2003		2004
U.S.	0	U.S.	0
Others		Others	
New Zealand	797	New Zealand	740
Japan	476	Japan	363
Hong Kong	226	Indonesia	101
Indonesia	212	Hong Kong	100
Singapore	136	South Korea	93
China	125	China	88
Malaysia	94	Malaysia	85
South Korea	91	Singapore	69
Thailand	64	Thailand	53
Philippines	53	Philippines	43
Total for Others	2274		1735
Others not Listed	205		162
Grand Total	2479		1897

SECTION THREE: NARRATIVE ON SUPPLY, DEMAND, POLICY AND MARKETING

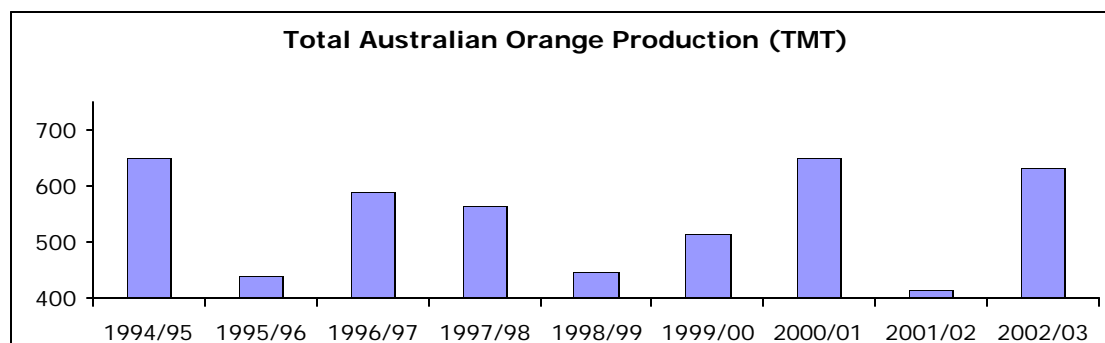
Fresh Oranges

Production

Australia's total orange production is forecast at 500,000 metric tons (MT) in 2005/06, up eight percent from the previous year. If achieved, this level of production would be more in-line with the longer-term average. Post assumes a continued return to more normal weather conditions, following the severe drought during 2002-03. More normal rainfall levels in major citrus growing areas and in the associated irrigation catchment areas are expected to provide a boost to production. Post forecasts planted area unchanged, with a slight increase forecast in total tree numbers.

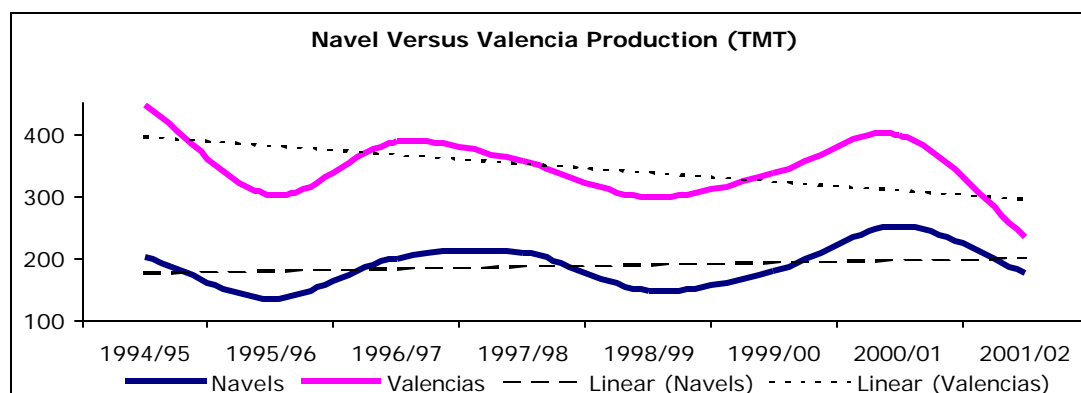
Orange production in 2004/05 is estimated at 474,000 MT, up 11 percent from the previous year and roughly in-line with recent industry figures. This figure remains well below Post's previous forecast, which did not fully account for a resumption of drier than normal conditions following an excellent start to the season. However, some improvement in climactic conditions and an "on" production year helped to boost production from the previous year's depressed level.

Total orange production in 2003/04 is estimated at 407,000 MT, in-line with recently revised industry figures. This represents the smallest orange crop since 1988/89, according to historical figures from Australian Bureau of Agriculture and Resource Economics (ABARE). Widespread drought conditions restricted supplies of irrigation water and also reduced precipitation in key producing regions. Furthermore, the drought experienced in the lead-up to the 2003/04 harvest coincided with an "off" production year.



Source: ABARE data.

Australia's orange production is dominated by navel and Valencia varieties. Over the past decade, Valencia production has trended downwards, while navel production has steadily increased. Competition from low-priced juice imports has significantly lowered the returns from Valencia oranges grown primarily for processing. Conversely, the successful development of export markets for fresh navel oranges, notably in the U.S. market, has favored production of this variety.



Source: ABARE data.

Citrus is grown commercially in all Australian states, except Tasmania. There are four main orange producing regions – the Riverland in South Australia, Sunraysia in the Murray Valley region of Victoria and New South Wales, the Riverina in New South Wales, and the Central Burnett region of Queensland. The Riverland, Sunraysia and Riverina regions, which are all located in the inland irrigation areas of southeastern Australia, together constitute the Tri-State Fruit Fly Exclusion Zone. This area accounts for about 90 percent of Australian citrus production. About 80 percent of Australia's citrus production is comprised of oranges, with mandarins, tangelos, lemon, limes and grapefruit making up the remainder.

In Australia, most citrus holdings are relatively small mixed fruit growing operations, with an average harvested area of less than 20 hectares.

Trade

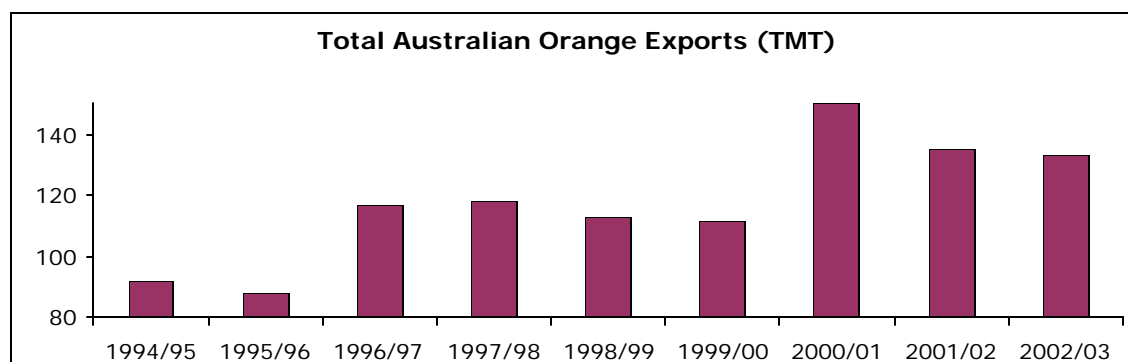
Exports: Post forecasts total orange exports rising to 110,000 MT in 2005/06 (marketing year April-March), reflecting the higher production forecast. The strengthening Australian dollar, vis-à-vis the U.S. dollar, is expected to dampen export returns and to restrict an even larger rise in exports.

Post projects total orange exports in 2004/05 at 98,000 MT, in-line with official Australian Bureau of Statistics (ABS) figures. Total orange exports for 2003/04 are estimated at 94,000 MT, down from Post's previous figure and in-line with official ABS statistics.

Australia's major orange export markets are the United States and Southeast and East Asian countries.

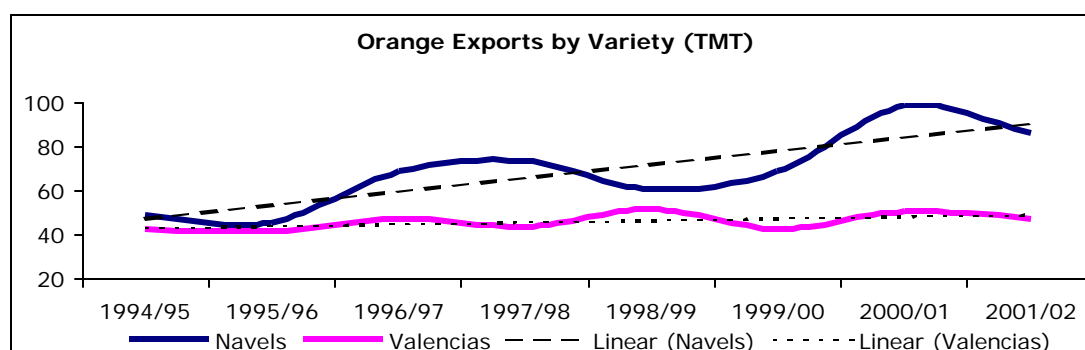
Imports: Orange imports in MY 2005/06 are forecast at 10,000 MT, down from the revised projection of 13,000 MT in 2004/05. The larger expected 2005/06 orange crop is expected to result in a drop in import demand in 2005/06.

The United States is the major supplier of orange imports, consisting primarily of California navels. U.S. oranges are imported on a "counter-seasonal" basis, filling the shortfall in supply in the lead-up to the domestic navel harvest. Other Northern Hemisphere suppliers -- Spain, Israel and Egypt -- typically supply the bulk of the remainder of Australia's orange imports.



Source: ABARE data.

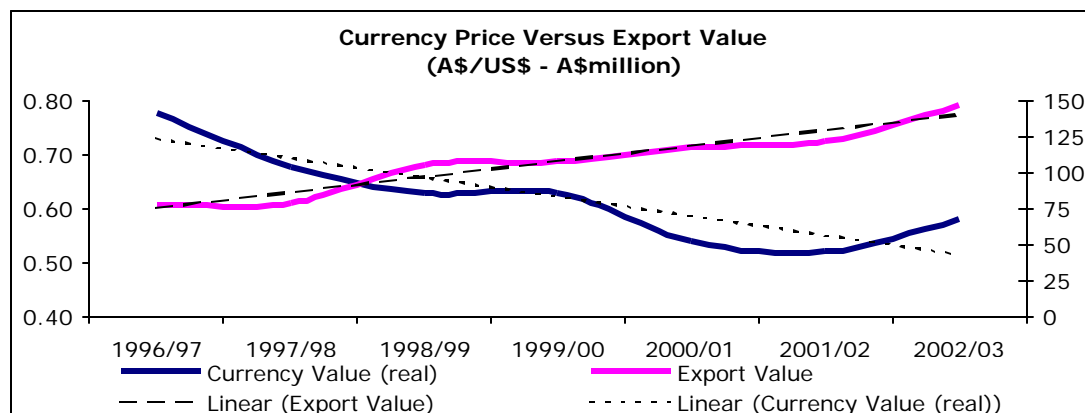
Exports of navel oranges have risen steadily over the past decade, while Valencia exports have remained relatively unchanged, according to ABARE historic data.



Source: ABARE data.

Currency Trends

There has been a long-term decline in the value of the Australian dollar over the past decade, notably vis-à-vis the U.S. dollar. Over this period, the value of Australia's orange exports (in Australian dollar terms) has increased. The decline in the value of the Australian dollar has been a driver behind rising orange export values over the past decade.



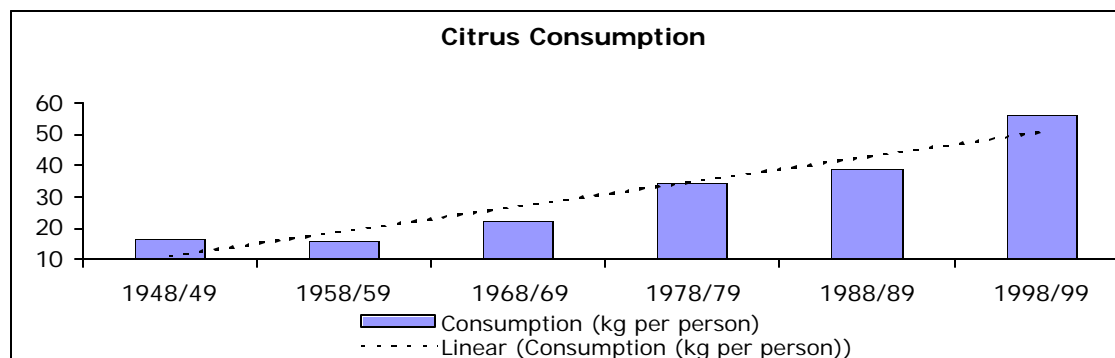
Source: ABARE data.

More recently, however, a rising Australian dollar has acted to constrain export price increases when expressed in domestic currency terms. The Australian dollar has appreciated markedly against the currencies of major trading partners over the last year, particularly vis-à-vis the United States, averaging US\$0.544 in 2002, US\$0.65 in 2003, and peaking at US\$0.80 in early 2004. Currently, the Australian dollar is valued at about US\$0.77.

Consumption

Orange consumption is forecast to rise to 190,000 MT in MY 2005/06, driven by improved availabilities from the larger expected domestic crop. Consumption is estimated at 176,000 MT in 2003/04, largely unchanged from Post's previous figure.

Official up-to-date consumption figures for citrus are unavailable. Historical ABARE figures show total consumption ranging from 78,000 MT to 210,000 MT over the past decade, with consumption rising steadily over a longer time period. Evidence suggests that the primary drivers for consumption are domestic production levels and competition for exports. Imports play a relatively minor role in overall consumption.



Source: ABARE data.

Orange Juice

Production

Orange juice production in 2005/06 is forecast to rise five percent to 16,153 MT (concentrate equivalent), in-line with the forecast five percent rise in deliveries to processors. Post uses a standard conversion factor of 13 to convert fresh oranges to standard concentrate.

Orange juice production is estimated at 15,384 MT in 2003/04, derived from the 200,000 MT of fruit delivered to processors. This is up nearly 18 percent from the 13,077 MT estimated to have been produced the previous year and is primarily attributed to the larger domestic orange crop, which boosted availabilities for processing.

Trade

Imports of orange juice in 2005/06 are forecast at 31,000 MT, down slightly from the revised figure for the previous year. Imports are estimated at 31,362 MT in 2004/05, up sharply from the previous year. Lower domestic supplies as a result of the drought contributed to the sharp increase in juice imports in 2004/05. Virtually all Australia's orange juice imports are sourced from Brazil.

Exports of orange juice are forecast to increase five percent to 2,100 MT in 2004/05. A projected increase in orange production and subsequent increase in fruit deliveries to processors is anticipated to drive this increase.

Consumption

Orange juice consumption is forecast at 45,000 MT in concentrate equivalent, unchanged from the revised figure for the previous year.

Official up-to-date consumption figures for orange juice are unavailable. Post's orange juice consumption figures are roughly comparable to figures published by the Department of Agriculture, Fisheries and Forestry (DAFF, previously AFFA.)

Policy

Free Trade Agreements

Australia has entered into Free Trade Agreements with New Zealand and Singapore, and has recently completed FTA negotiations with Thailand and the United States. Other FTAs are being pursued with ASEAN, China and other countries in the region.

Australia-U.S. FTA: Australia completed FTA negotiations with the United States in early 2004, with the agreement to go into effect on January 1, 2005. The Australian Minister for Trade has characterized the FTA as "the most important bilateral deal that Australia has ever concluded".

In 2003/04, the United States was Australia's second largest export destination for oranges by volume, and the largest market when expressed in value. The Minister for Trade stated earlier in 2004 that the implementation of the Australia-U.S. FTA will provide an immediate benefit for Australian citrus exports to the United States of around A\$670,000 per annum, primarily through tariff reduction. Imported U.S. citrus already enters Australia duty free.

Australia-Thailand FTA: Australia completed FTA negotiations with Thailand in October 2003, with the agreement to be implemented on January 1, 2005. Thailand currently accounts for minimal citrus trade with Australia.

Australia/New Zealand-ASEAN FTA: In November 2004, Australia, New Zealand and the Association of Southeast Asian Nations (ASEAN) announced that negotiations on a FTA would begin in early 2005. Further it was agreed that the FTA negotiations would be completed within two years and implemented fully within 10 years. This FTA would compliment bilateral FTA's with New Zealand, Singapore and Thailand, as well as a FTA scoping study currently being undertaken with Malaysia.

Australia-China FTA: In October 2003, The Australian and Chinese governments signed a framework agreement for managing the bilateral trade and economic relationship between the two countries.

As part of this framework, the two governments undertook to conduct a detailed joint study into the feasibility and benefits of an FTA between Australia and China. This study is to be completed by October 2005 and will provide the basis for Australia and China to negotiate an FTA. In subsequent meetings, the two countries have agreed to "fast track" the study, although a revised date of completion has not been announced.

Australia currently conducts minimal citrus trade with Mainland China, although Hong Kong was Australia's largest orange export destination by volume in 2003/04, based on ABS statistics.

Quarantine Policy

The Australian Government announced changes to Biosecurity Australia (BA) in July 2004. (BA is the quarantine policy-making organization for agricultural imports.) More recently, further changes were made in the structure and procedures of BA, including making it a prescribed agency under commonwealth legislation. In large part, these changes were introduced to provide greater policy-making autonomy.

The changes in the structure and procedures of BA come amidst widespread complaints from domestic agricultural interests regarding a series of recently proposed quarantine policy actions. The complaints have emanated chiefly from industries that would face first-time, or increased, import competition as a result of changes to existing quarantine import conditions.

Quarantine Developments

Canker outbreak: On July 6, 2004, Australian authorities confirmed the detection of citrus canker in an orchard in Emerald, a relatively remote area in central Queensland. An eradication, containment and surveillance plan was put into place following this detection. This plan included the destruction of the block of infected trees, which numbered around 8,000. Interstate and export markets were automatically closed for Queensland citrus and were not reopened until August 3, when full details of the outbreak had been assessed.

On October 1, legislation was introduced to establish a quarantine zone around the outbreak site and also included legal requirements for the treatment of citrus for transport in the state of Queensland. On October 8, a second outbreak was confirmed, although this property was also located within the legislated quarantine zone. Transportation of citrus fruit and plant material within Queensland originally required treatment and certification under these rules, although this requirement has recently been lifted.

Australia has declared itself to be free of citrus canker, despite experiencing periodic outbreaks. The first outbreak occurred in the Northern Territory in 1912 and subsequent outbreaks were discovered in 1991 and 1993. Queensland experienced its first outbreak on Thursday Island in 1984 and then most recently on the mainland in July of 2004.

U.S. citrus: Currently, citrus from Florida is not allowed access to the Australian market, due to pests of quarantine concern. Biosecurity Australia, the government organization responsible for quarantine policy, released a draft policy (Draft Import Risk Analysis Report) for the importation of citrus from the U.S. state of Florida in July 2003. Technical negotiations to address possible disease concerns are ongoing. Gaining access for Florida citrus into the Australian market is a priority for the United States.

Most U.S. citrus now entering Australia is sourced from California. Under current import protocols, U.S. citrus must be certified pest and disease free.

Industry Organization

Levies are assessed to fund citrus research and development (R&D) and market development activities. Levies are usually applied at the first point of sale and are collected by the Commonwealth government on a cost recovery basis and the Commonwealth matches

grower levies for R&D on a one-for-one basis. Horticulture Australia Ltd. manages the levy funds through input from the citrus Industry Advisory Committee (IAC). The citrus IAC represents the citrus industry in developing an investment and annual operating plan for R&D and marketing activities funded by levies.

Currently, national citrus levies are A\$2.00 per metric ton on all citrus for R&D and A\$0.75 per MT on oranges for marketing and promotion. The total of grower levies collected per year averages about A\$1.9 million, which results in a marketing program of about A\$400,000 and R&D projects of about A\$2.5 million (including matched funds.) Citrus growers may also pay regional levies, which are used for activities of state or regional boards and may be used for assisting with national domestic promotion and regional R&D efforts. A recent initiative within Australian Citrus Growers Incorporated (ACGI) to increase the value of levies was rejected when citrus growers throughout Australia voted against the increase.